

SCOR Marketplace—Listing Fee Schedule*Original Listings*

The Original Listing fees are fixed fees and issues are not charged by the number of shares being listed.

Common Stock: \$5,000.00

Preferred Stock: 5,000.00

Processing Fee

*Per Original Listing Application: \$500.00

Name change: 250.00

Change in Par Value: 250.00

*This is a fixed charge for the review of potential listings and is non-refundable. Issues approved for listing may have this charge credited toward the original listing fee.

Substitution of Original Listing

Per Application: Fixed charge of \$750.00

Substitution may occur as a result of a change in state of incorporation, reincorporation under laws of same state, a reverse stock split, recapitalizations, or similar events.

Listing of Additional shares

Per Application: \$.0025 per share

Minimum charge of \$500.00

Maximum charge of \$2,500.00

Maximum charge of \$5,000.00 per annum

Annual Maintenance Fee

For one issue: \$1,000.00

For each additional issue: 500.00

Payable January of each year following listing.

Conversion Fee

Conversion from the SCOR Market place to Tiers I or II.

Common Stock \$15,000.00

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, with the requirements of Sections 6(b).⁴ In particular, the Commission believes the proposal is consistent with the Section 6(b)(4) requirements that the rules of an exchange provide for the equitable allocation of reasonable dues, fees, and other charges among its members, issuers, and other persons using the Exchange's facilities.⁵ The Commission believes that the fee schedule for the initial and continued listing of SCOR securities is equitable because the fees should not result in an excessive

allocation of PSE fees on its issuers as opposed to members and other persons using its facilities.

The Commission notes that, except for the SCOR original listing fees, the fee schedule for SCOR securities is consistent with the Exchange's fee schedule for Tier I and Tier II securities.⁶ The Commission believes that it is reasonable for the Exchange to impose a lesser initial listing fee for common stock SCOR listings because these issuers will be smaller companies listing single classes of securities. The Commission also believes that it is reasonable for the Exchange to apply the original listing fee for SCOR preferred stock and common stock because it is likely that the costs incurred by the Exchange in processing the listing applications for common and preferred stock will be the same. Additionally, the Commission believes that the conversion fee for common stock that moves from the SCOR list to the Tier I or Tier II lists is reasonable because, when added to the SCOR original listing fee, SCOR issuers will have paid the same amount for listing as those that listed common stock on the PSE directly under Tier I or Tier II.⁷

It is Therefore Ordered, pursuant to Section 19(b)(2) of the Act,⁸ that the proposed rule change (SR-PSE-95-03) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁹

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-35634; File No. SR-NASD-94-54]

Self-Regulatory Organizations; National Association of Securities Dealers, Inc.; Order Granting Approval and Notice of Filing and Order Granting Accelerated Approval of Amendments No. 1 and 2 of Proposed Rule Change Relating to Position and Exercise Limits for Equity Options Overlying Equity Securities Not Subject to Standardized Options Trading

April 20, 1995.

I. Introduction

On October 12, 1994, the National Association of Securities Dealers, Inc. ("NASD" or "Association") filed with the Securities and Exchange Commission ("SEC" or "Commission") a proposed rule change pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder.² On March 3 and 22, 1995, and NASD submitted amendments to the proposal.³ The NASD proposes to amend its Rules of Fair Practice to allow, under certain circumstances, members to increase the applicable position and exercise limits⁴ for conventional options⁵ overlying those equity securities that are not subject to standardized options trading.⁶

¹ 15 U.S.C. 78s(b)(1) (1988).

² 17 CFR 240.19b-4 (1994).

³ Letters from Joan Conley, Corporate Secretary, NASD, to Mark Barracca, Branch Chief, SEC (Mar. 3, 1995) and Thomas R. Gira, Assistant General Counsel, Nasdaq, to Mark Barracca, Branch Chief, SEC (Mar. 22, 1995). The NASD amended its filing to provide, most significantly that: (1) To be eligible to qualify for a higher position limit, the underlying security must satisfy the initial listing standards for standardized options trading; (2) to continue to be eligible to qualify for a higher position limit, the underlying security must satisfy the maintenance criteria for standardized options trading; and (3) if the position limit is lowered, members will not be required to liquidate their position but will be prohibited from increasing it if it is above the new limit.

⁴ Under NASD rules, exercise limits placed on options trading equal the limits imposed for options positions. *NASD Manual*, Rules of Fair Practice, Art. III, Sec. 33(b)(3)(A), (CCH) ¶ 2183.

⁵ A conventional option is any option contract not issued, or subject to issuance, by The Options Clearing Corporation. *NASD Manual*, Rules of Fair Practice, Art. III, Sec. 33(b)(1)(GG), (CCH) ¶ 2183.

⁶ Position limits impose a ceiling on the number of option contracts in each class on the same side of the market (i.e., aggregating long calls and short puts and long puts and short calls) that can be held or written by an investor or group of investors acting in concert. Exercise limits restrict the number of options contracts which an investor or group of investors acting in concert can exercise within five consecutive business days. Under NASD Rules, exercise limits correspond to position limits, such that investors in options classes on the same side of the market are allowed to exercise, during any five consecutive business days, only the number of options contracts set forth as the

⁴ 15 U.S.C. 78f(b) (1988).

⁵ 15 U.S.C. 78f(b)(4) (1988).

⁶ The PSE's listing fees for Tier I and Tier II securities were last amended in Securities Exchange Act Release No. 34276 (June 29, 1994), 59 FR 34892 (July 7, 1994). The original listing fee for Tier I and Tier II securities is \$20,000. The original listing fee for Tier I and Tier II preferred stock (secondary issuers) is \$2,500.

⁷ There is no conversion fee for preferred stock because the original listing fee for Tier I and Tier II preferred stock is lower than the original SCOR listing fee for preferred stock.

⁸ 15 U.S.C. 78s(b)(2) (1988).

⁹ 17 CFR 200.30-3(a)(12) (1994).

Notice of the proposed rule change appeared in the **Federal Register** on January 9, 1995.⁷ The Commission did not receive any comments on the proposal. For the reasons discussed below, this order approves the proposed change, as amended.

II. Description of the Proposed Rule

A. Background and Purpose

As indicated above, the NASD proposes to allow members to increase the applicable position and exercise limits for conventional options overlying those equity securities that are not subject to standardized options trading if certain conditions are satisfied. For conventional equity options traded by any NASD member, if the underlying security is subject to standardized options trading, the NASD's position limit for conventional options on that security is the same position limit imposed by the options exchange(s) trading the option. Specifically under NASD rules, position and exercise limits for exchange-listed options traded by access firms⁸ or their customers are determined according to a "three-tiered" system, where, depending upon the float and trading volume of the underlying security, the position limit for options on that security is 4,500, 7,500, or 10,500 contracts.⁹ However, if the security underlying the option is not subject to standardized options trading, the

applicable position limit for conventional options on the security is the lowest tier, *i.e.*, 4,500 contracts.

In some instances, however, a security could be eligible for standardized options trading and qualify for an options exchange position limit of 7,500 or 10,500 contracts but, for purposes of NASD position limits, it is subject to a position and exercise limit of 4,500 contracts because it does not underlie an exchange-listed standardized option. Given that these securities could qualify for higher position limits but are not eligible for them solely because there is no standardized option traded on them in the U.S., the NASD believes its option position limit rule may be unduly restrictive for these securities and unnecessarily constrain members' legitimate hedging activity. Accordingly, the NASD proposes to amend Section 33 to provide that the position limit for options on a security shall be determined by the position limit tier the security falls under, regardless of whether the security is subject to standardized options trading, as long as the security meets the initial and maintenance standards for standardized options trading.

The NASD believes its proposal is warranted for the following reasons. First, if a security has sufficient trading volume and public float to satisfy the standards for a position limit of 7,500 contracts or 10,500 contracts, the NASD does not believe that raising the position and exercise limits for conventional options on the security will adversely affect the cash market for that security. In the NASD's view, if the cash market for a security is large enough to qualify for an options position limit of 7,500 contracts or 10,500 contracts, it is irrelevant whether that security is only subject to conventional options trading and not standardized options trading. The NASD believes the primary consideration governing the appropriate position limit level for options on a security should be the characteristics and size of the underlying cash market for that security, not whether the options overlying the security are standardized or conventional. Second, the NASD does not believe its members' activities in the conventional options market should be linked to or constrained by decisions of the options exchanges concerning whether or not to trade options on particular securities.

Moreover, the NASD believes that its proposal will not compromise the stability of the securities markets underlying the conventional options eligible for the higher position limits. In this regard, for those securities that will be eligible for higher position limits

under the proposal, there will only be a slight increase in the percentage of their capitalization that an investor or group of investors acting in concert can control under the new position limits.

B. New Proposal

The NASD proposes to permit position and exercise limits of up to either 7,500 or 10,500 contracts, whichever is applicable, for conventional options, if the equity security satisfies the initial criteria and other listing standards for standardized options trading and otherwise qualifies for a higher position and exercise limits of 7,500 or 10,500 contracts.¹⁰ Prior to establishing such a higher position, the member first must demonstrate to the NASD's Market Surveillance Department that the underlying equity security satisfies the initial listing criteria for standardized options trading *and* qualifies for a higher position and exercise limit of 7,500 or 10,500 contracts. The initial listing criteria for standardized options trading are uniform among the five U.S. options exchanges (collectively referred to as the "options exchanges").¹¹ Likewise, the criteria for qualifying for a higher position and exercise limit of 7,500 or 10,500 contracts is uniform among the options exchanges.¹²

After a member has demonstrated that an equity security meets the criteria for increased position and exercise limits, the increased limit will remain in effect for all other conventional options positions established by the same or other NASD members on that equity

applicable position limit for those options classes. See *NASD Manual*, Rules of Fair Practice, Art. III, Sec. 33(b) (3) & (4), (CCH) ¶ 2183.

⁷ Securities Exchange Act Release No. 35180 (Dec. 30, 1994), 60 FR 2413 (Jan. 9, 1995).

⁸ "Access" firms are NASD members which conduct a business in exchange-listed options but which are not members of any of the options exchanges upon which the options are listed and traded.

⁹ In this connection, the NASD's rules do not specifically govern how a specific equity option falls within one of the three position limit tiers. Rather, the NASD's position limit rule provides that the position limit established by an options exchange(s) for a particular equity option is the applicable position limit for purposes of the NASD's rule. Under the rules of each of the options exchanges, if the security underlying a standardized option has trading volume of 40,000,000 shares over the most recent six-month period or trading volume of 30,000,000 shares over the most recent six-month period and float of 120,000,000, it is subject to a position limit of 10,500 contracts; if the security underlying a standardized option has trading volume of 20,000,000 shares over the most recent six-month period or trading volume of 15,000,000 shares over the most recent six-month period and float of 40,000,000, it is subject to a position limit of 7,500 contracts; and, if the underlying security is ineligible for a 10,500 or 7,500 contract position limit, it is subject to a 4,500-contract position limit. The rules of each options exchange are uniform in regard to the above. See, *e.g.*, Commentary .07 to American Stock Exchange Rule 904 and Interpretation and Policy .02 to Chicago Board Options Exchange Rule 4.11.

¹⁰ For foreign securities, before an option is eligible for standardized options trading, market surveillance sharing arrangements must be satisfied. For the NASD to satisfy these requirements under its proposal, prior to allowing higher (7,500 or 10,500) position and exercise limits for options overlying a foreign security, the NASD will need to ensure that: (1) It has in place a comprehensive surveillance sharing agreement with the primary exchange in the home country where the foreign security is primarily traded; or (2) the combined trading volume of the foreign security (and other related securities) occurring in the U.S. markets represents at least 50% of the combined worldwide trading volume in the underlying security (including other related securities). See Securities Exchange Act Release No. 35554 (Jan. 31, 1994), 59 FR 5622 (Feb. 7, 1994).

¹¹ The five options exchanges are: Chicago Board Options Exchange ("CBOE"); American Stock Exchange ("Amex"); New York Stock Exchange ("NYSE"); Philadelphia Stock Exchange ("Phlx"); and Pacific Stock Exchange ("PSE"). See *CBOE Rules*, Rule 5.3, (CCH) ¶ 2113; *Amex Rules*, Rule 915, (CCH) ¶ 9715; *NYSE Rules*, Rule 715, (CCH) ¶ 2715; *Phlx Rules*, Rule 1009, (CCH) ¶ 3009; *PSE Rules*, Rule 3.6, (CCH) ¶ 3591.

¹² See *CBOE Rules*, Rules 4.11 & 4.12, (CCH) ¶ 2091 & 2092; *Amex Rules*, Rules 904 & 905, (CCH) ¶ 9704 & 9705; *NYSE Rules*, Rules 704 & 705, (CCH) ¶ 2704 & 2705; *Phlx Rules*, Rules 1001 & 1002, (CCH) ¶ 3001 & 3002; *PSE Rules*, Rules 6.8 & 6.9, (CCH) ¶ 4769 & 4775.

security, subject to a review to be conducted by the NASD on the Monday following the third Friday of the next January or July, whichever occurs first, and each successive January and July. The NASD's periodic reviews will be conducted to determine whether: (a) The underlying equity security continues to satisfy the options exchanges' maintenance criteria for listing standardized options upon such security;¹³ and (b) the equity security continues to satisfy the criteria for higher position and exercise limits. If either test is not satisfied, the position and exercise limit will be lowered to the applicable level,¹⁴ effective on the Monday following the third Friday of January or July.¹⁵ If position and exercise limits are lowered, a member will not be required to reduce its position to meet the new position limit level; however, a member will not be permitted to increase its existing position if such position is greater than the new limit.¹⁶

Finally, the NASD recognizes that its proposal allows for the possibility that a NASD member complying with the new position limit standards might nonetheless be deemed in violation of options exchange position limit standards. Specifically, if a NASD member is also a member of one or more of the options exchanges, the member could be in violation of the respective option exchange's position and exercise limits if standardized options trading commences covering an underlying equity security for which the NASD previously granted a higher (7,500 or 10,500 contracts) limit. The potential risk arises if the options exchange position and exercise limits are lower than the NASD's limits and the member exceeds the exchange's limit.¹⁷ While

the member would not violate the NASD's rule,¹⁸ the NASD cannot exempt its members from the options exchanges' rules. To address this potential issue, the NASD has committed to notifying its members¹⁹ that they could be in violation of the options exchanges' rules if the options exchanges do not grant an exemption under the above described circumstances.²⁰

III. Discussion

The Commission believes that the rule change is consistent with the requirements of Section 15A of the Act of the rules and regulations thereunder applicable to the NASD, and therefore, has determined to approve the proposal. Section 15A requires that the rules of the NASD, among other things, be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market, and, in general, to protect investors and the public interest.²¹

Currently, NASD members trading conventional equity options for which there is no standardized options trading covering the underlying equity security are limited to a position of 4,500 contracts. Nonetheless, some of the equity securities underlying these conventional options meet the standards for standardized options trading but, for business or other reasons, none of the options exchanges have decided to list standardized options upon them. Moreover, some of these equity securities satisfy the criteria to qualify for options position and exercise limits of 7,500 or 10,500 contracts. However, because there are no standardized options traded upon them, the position and exercise limits remain at 4,500 contracts.

¹⁸ If a position limit is lowered, the NASD will not require liquidation to the new limit, but will prohibit increasing further the position. Letter from Joan Conley, Corporate Secretary, NASD, to Mark Barracca, Branch Chief, SEC (Mar. 22, 1995).

¹⁹ The NASD will provide this notification in its Notice to Members announcing the Commission's approval of this proposal. Letter from Thomas R. Gira, Assistant General Counsel, Nasdaq, to Mark Barracca, Branch Chief, SEC (Mar. 22, 1995).

²⁰ NASD rules provide that, for purposes of assessing whether a member is complying with limits on options positions, standardized and conventional options positions must be aggregated. *NASD manual*, Rules of Fair Practice, Rule 33(b)(3)(A), (CCH) ¶ 2183.

²¹ 15 U.S.C. 78o-3(b)(6).

The Commission believes it is appropriate for the NASD to increase, as proposed, its applicable equity option position and exercise limits to allow its members that establish positions in conventional options the benefit of those higher limits where the underlying security fully qualifies²² to be eligible for standardized options trading and the trading volume and/or shares outstanding for the underlying equity security warrant such increase. Moreover, the NASD has essentially agreed to review and apply the equity option maintenance standards used by the options exchanges, as well as the position and exercise limit standards, using procedures that basically mirror those that have been instituted by the options exchanges. The monitoring standards outlined above will provide that position and exercise limits are maintained at appropriate levels. Accordingly, this substitute review will allow the NASD to address those instances where the options exchange could list and trade equity options, subject to the 7,500 or 10,500 position and exercise limit tier but, for business or other non-regulatory reasons, have decided not to list such options.

Moreover, the Commission believes that the NASD proposal should not adversely affect the cash market for the underlying security. The options overlying these securities will continue to have position limits determined based on established standards.²³ In addition, NASD members will be required to aggregate with other conventional options as well as standardized options if they are subsequently listed. Accordingly, the Commission believes that this rule change will not undermine the objective of preventing the establishment of large option positions that can be used to manipulate or disrupt the underlying market to the benefit of the option position.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning Amendments No. 1 and 2. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549.

²² The Commission notes that, with regard to options overlying foreign securities, the surveillance related requirements that apply to standardized options trading on foreign securities must also be met by the NASD before it allows increased conventional option position and exercise limits. See *supra* note 10.

²³ See *NASD Notice to Members 94-64*, NASD Reminds Members of Their Obligations When Trading Options (June 1994).

¹³ See *CBOE Rules*, Rule 5.4, (CCH) ¶2114; *Amex Rules*, Rule 916, (CCH) ¶9716; *NYSE Rules*, Rule 716, (CCH) ¶2716; *Phlx Rules*, Rule 1010, (CCH) ¶3010; *PSE Rules*, Rule 3.7, (CCH) ¶3597.

¹⁴ If the maintenance criteria is not satisfied, the security would not be eligible for standardized option listing and, therefore, the position and exercise limits would return to 4,500 contracts, regardless of whether the volume and float data of the security continue to meet the criteria for a higher position and exercise limit.

¹⁵ If, however, subsequent to the six-month review, the security becomes eligible for a higher limit prior to the next review, the NASD may increase immediately the position and exercise limit to the applicable level.

¹⁶ Letters from Joan Conley, Corporate Secretary, NASD, to Mark Barracca, Branch Chief, SEC (Mar. 3, 1995) and Thomas R. Gira, Assistant General Counsel, Nasdaq, to Mark Barracca, Branch Chief, SEC (Mar. 22, 1995).

¹⁷ This could occur if from the time the NASD granted a higher position and exercise limit and the time the standardized option was introduced the trading characteristics of the security changed so that the standardized option was introduced at a lower position limit.

Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. § 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the NASD. All submissions should refer to the file number SR-NASD-94-54 and should be submitted by May 18, 1995.

V. Conclusion

For the reasons stated above, the Commission finds that the rule change is consistent with the Act and the rules and regulations thereunder applicable to the NASD, in particular, Section 15A(b)(6). In addition, pursuant to Section 19(b)(2) of the Act,²⁴ the Commission finds good cause for approving the proposed rule change, as amended, prior to the 30th day after publication of Amendments No. 1 and 2 in the **Federal Register**. These amendments provide that the NASD will apply initial listing and maintenance criteria consistent with the application of these criteria by the options exchanges for determining whether a security qualifies for standardized options trading. The Commission finds that no new regulatory issues are raised by these amendments and notes that prior to them, the proposed rule change was published in the **Federal Register** for the full statutory period and no comments were received.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change SR-NASD-94-54 be, and hereby is, approved, as amended.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.²⁵

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 95-10295 Filed 4-26-95; 8:45 am]

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[Release No. 34-35625; International Series Release No. 804; File No. SR-NASD-94-55]

Self-Regulatory Organizations; National Association of Securities Dealers; Order Approving a Proposed Rule Change Relating to the Access of West Canada Clearing Corporation and Its Members to the Automated Confirmation Transaction Service

April 19, 1995.

On October 12, 1994, the National Association of Securities Dealers, Inc. ("NASD") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-NASD-94-55) under Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ to allow access by West Canada Clearing Corporation ("West Canada") and its members to the NASD's automated confirmation transaction service ("ACT"). Notice of the proposal was published in the **Federal Register** on January 27, 1995.² Sixteen comment letters were received that supported the proposal.³ For the reasons discussed below, the Commission is approving the proposed rule change.

¹ 15 U.S.C. 78s(b)(1) (1988).

² Securities Exchange Act Release No. 35257 (January 20, 1995), 60 FR 5446.

³ Letters from M. Dryhurst, Cage Manager, Levesque Beaubien Geoffrion Inc., to Secretary, Commission (February 8, 1995); Charles J. Dunlap, C.G.A., Chief Financial Officer, Haywood Securities Inc., to Secretary, Commission (February 7, 1995); Donna M. Kenny, Back Office Manager, Global Securities, to Secretary, Commission (February 9, 1995); D. Foreman, Manager, Clearing, Odlum Brown, to Secretary, Commission (February 9, 1995); B.D. Harwood, Vice Chairman, Canaccord, to Secretary, Commission (February 16, 1995); Gerald H. Powers, Senior Vice President, Cantella & Co., Inc., to Secretary, Commission (February 16, 1995); David R. Smith, Chief Financial Officer, McDermid St. Lawrence Chisholm Ltd., to Secretary, Commission (February 14, 1995); Phyllis Stevenson, Manager, Operations, Meridian Securities International Ltd., to Secretary, Commission (February 10, 1995); Steve McKee, Registered Representative, Golden Capital Securities Ltd., to Secretary, Commission (February 14, 1995); Tony Chan, Vice President, Golden Capital Securities Ltd., to Secretary, Commission (February 14, 1995); Jeff Rutledge, Registered Representative, Golden Capital Securities Ltd., to Secretary, Commission (February 14, 1995); Gus Wahlroth, Registered Representative, Golden Capital Securities Ltd., to Secretary, Commission (February 14, 1995); Jack Finkelstein, Registered Representative, Golden Capital Securities Ltd., to Secretary, Commission (February 14, 1995); Randy Shaw, Registered Representative, Golden Capital Securities Ltd., to Secretary, Commission (February 14, 1995); Rita Gatto, Registered Representative, Golden Capital Securities Ltd., to Secretary, Commission (February 14, 1995); Marie Martin, Vice President and Operations Manager, Midland Walywn Capital Inc., to Secretary, Commission (February 22, 1995). The comment letters are discussed in Section B below.

I. Description of the Proposal

A. Description

The NASD is amending its rule regarding ACT to allow West Canada, a nonmember of the NASD, and members of West Canada who are not members of the NASD to access this service. The NASD also is amending the ACT rule to reflect that NASD members functioning as market makers in over-the-counter equity securities are also classified as ACT participants.

The NASD created and implemented the ACT system in response to problems experienced in the wake of the October 1987 market break and at the urging of the Commission to consider accelerating efforts to generate same day compared trades.⁴ ACT has three primary features: (1) Trade match processing (*i.e.*, the comparison of trade information and the submission of locked-in trades for regular way settlement to clearing agencies on a trade date or next day ["T+1"] basis);⁵ (2) trade reporting for transactions in securities that are subject to real time trade reporting requirements; and (3) risk management features that provide firms with a centralized, automated environment for assessing market exposure during and after the trading day and that permit clearing firms to monitor and respond to the ongoing trading activities of their correspondents.⁶

⁴ For a description of ACT, refer to Securities Exchange Act Release Nos. 27229 (September 8, 1989), 54 FR 38484 [File No. SR-NASD-89-25] (order partially approving proposed rule change to permit ACT to be used by self-clearing firms) and 28583 (October 26, 1990), 55 FR 46120 [File No. SR-NASD-89-25] (order approving remainder of File SR-NASD-89-25 to permit ACT to be used by introducing and correspondent broker-dealers).

⁵ ACT uses three methods to lock-in trades: (1) Trade-by-trade match, whereby both sides of the trade are reported to ACT and matched; (2) trade acceptance, whereby one side of the trade is reported to ACT and accepted by the contra-side; and (3) aggregate volume match, whereby ACT performs a batch-type comparison at the end of each day that aggregates previously unmatched trade reports to effect a match. (For example, two identical trade reports for 300 and 400 shares of the same security may be matched with a 700 share trade report.)

⁶ Among others, ACT has the following risk management capabilities. First, ACT can compute the dollar value of each trade report entered thereby allowing member firms to assess their market exposure during the trading day. Second, clearing firms can establish daily gross dollar thresholds for each correspondent's trading activity. If a correspondent reaches or exceeds the threshold, the clearing firm is so notified. Third, ACT alerts clearing firms when a correspondent reaches 70% or 100% of its daily gross dollar threshold. Fourth, ACT has a single trade limit that provides clearing firms with a 15 minute review period prior to becoming obligated to clear a trade of \$1,000,000 or more executed by one of its correspondents. Fifth, ACT has a super cap limit set at two times the gross dollar thresholds for purchases and sales but in no

Continued

²⁴ 15 U.S.C. 78s(b)(2).

²⁵ 17 CFR 200.30-3(a)(12) (1994).